



Q2 2025 CORPORATE BOND MARKET OUTLOOK



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Key Drivers For The Quarter

- Credit spreads for the Bloomberg U.S. Corporate Investment Grade (IG) Bond Index (the Index)¹ widened 14 basis points (bps) ending the first quarter at an option-adjusted spread (OAS) of 94 bps.² Spreads moved wider in early April as tariff conflicts intensified.
- The yield-to-worst³ for the Index was 5.15 percent on March 31, down from 5.33 percent at the end of the fourth quarter of 2024.
- A record investment grade (IG) bond supply in the first quarter met solid market demand.
- Credit fundamentals were stable, based on fourth-quarter earnings and margins reports.⁴
- Overall, market sentiment surveys—such as consumer confidence and purchasing manager indexes—trended less optimistic, as the quarter ended.
- The cross currents framed an uncertain market environment entering the second quarter. Tariff announcements after quarter-end could further affect the outlook.

1. The Bloomberg U.S. Corporate IG Bond Index is an unmanaged market-value-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more. You cannot invest directly in an index.

2. The Bloomberg U.S. Corporate IG Bond Index, Breckinridge, 3/31/25.

3. Yield to worst (YTW) is the lowest potential yield an investor can receive on a bond, assuming the bond is held until its earliest possible call date or maturity date, whichever comes first, without the issuer defaulting. It essentially provides a worst-case scenario for the investor's return, considering provisions like callability in the bond contract.

4. Barclays Research, U.S. Investment Grade Credit Metrics, Q4 2024 Update, 3/19/25 and Bloomberg U.S.



INVESTMENT REVIEW & OUTLOOK

Tight Spreads, Solid Demand, and Tariff-Related Uncertainty Drive a Defensive Posture

During March and for much of the first quarter, the challenge for investors was factoring into decision-making economic data and policy implications that pointed to slower future economic growth and a potential for recession along with counterbalancing data and policy promises that suggested growth would continue, at least in the near term.⁵ Cross currents from sometimes conflicting economic readings and policy announcements buffeted the markets, often leaving investors uncertain of which way to turn. Bond market volatility was elevated, especially through March.⁶

Corporate spreads widened 14bps with most of the upward pressure coming towards the end of the quarter. Equity market volatility and tariff-related uncertainty weighted on investor sentiment. While more attractive than at the start of the year, valuations were still below the long-term median at the end of the first quarter. With tariff uncertainty morphing into the highest potential U.S. tariff rates in a century, the exogenous shock continued to push spreads wider in the first week after quarter-end.

Depending on where tariffs rates ultimately shake out, it is reasonable to expect volatility in the corporate market. Volatility should offer opportunities to selectively add to high-grade corporates at more attractive valuations. We believe credit picking is key, with the assumption that a slower-growth, inflationary environment may emerge, driving dispersion across sectors and issuers.

IG corporate new issuance surprised to the upside and registered a record first quarter with about \$585 billion of bonds issued. As volatility picked up towards the end of the quarter, the IG market got quiet, as dealers and issuers waited to launch new bond deals.

The supply queue will likely be uncorked post-first quarter earnings and on days of relative stability in markets. At just over \$100 billion in the quarter, taxable bond fund inflows remain an important source of demand for corporate bonds in addition to new purchases by insurance companies. While strong at about \$356 billion in 2024, should net foreign buying of corporate bonds slow, other sources of demand would need to pick up the slack, which is a risk to the favorable technical backdrop.⁷

Credit fundamentals remain stable with solid earnings and margins, but tariffs complicate the profit outlook, particularly in Industrial sectors. Earnings are projected to grow by around 9 percent this year, per FactSet, but if tariffs stick, we see risks to the downside. If this were the case, credit implications would be negative for a broad subset of sectors.

Leverage is steady but deleveraging has stalled over the last two years and, if growth in operating cash flow was to slow or turn negative, leverage may creep up over the course of the year, potentially impacting credit ratings over time. Mergers were 20 percent higher in the first quarter but we expect mergers and acquisitions (M&A) to slow, given trade and tariff uncertainty. Deregulation, expected to be a tailwind for certain sectors, may also slow given staffing cuts at regulatory agencies.

The Breckinridge Investment Committee believes the Federal Reserve (Fed) will remain on hold through Q2 as it waits to assess the impact of tariffs and reprisals as they flow into economic data reports. Weaker economic growth, counterbalanced by higher core inflation, will likely prompt the Fed to cut rates once by the end of the year.

5. Breckinridge Capital Advisors, Inc., March 2025 Market Commentary, 4/11/25.

6. Breckinridge Capital Advisors, Inc., March 2025 Market Commentary, 4/11/25.

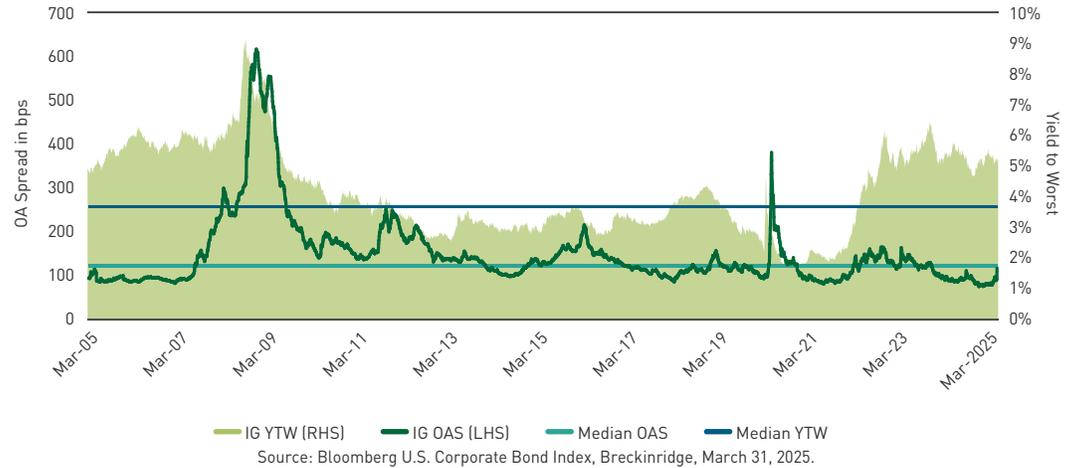
7. Financial Accounts of the United States, Flow of Funds Report, Federal Reserve System, Fourth Quarter, 2024.



Positioning is defensive with still tight valuations in most corporate sectors and a more challenged fundamental outlook. We continue to view IG fixed income as attractive relative to competing asset classes.

VALUATIONS

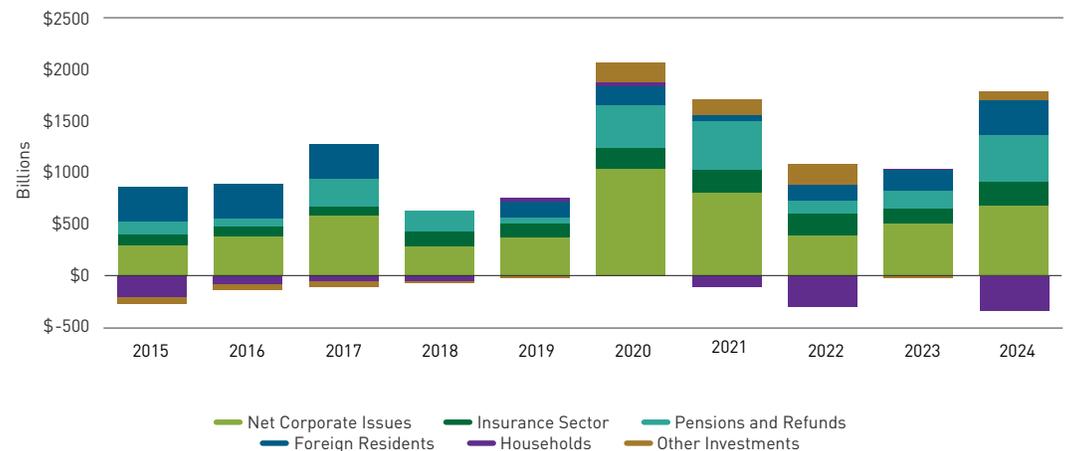
FIGURE 1: SPREADS ARE TIGHT, YIELDS ARE ABOVE AVERAGE



Corporate spreads were 14bps wider in 1Q25 closing at an OAS of 94bps. Equity market volatility and tariff-related uncertainty weighed on sentiment. Still tight spreads in the 19th percentile argue for a defensive posture. Despite uncertainty, all-in IG yields in the 70th percentile may support demand.

TECHNICALS

FIGURE 2: ELEVATED NET SUPPLY MET BY INSTITUTIONAL INFLOWS

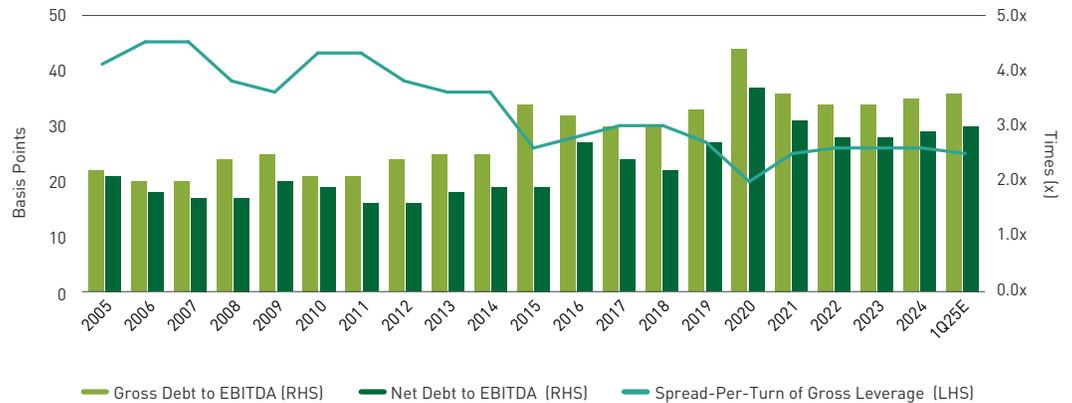


IG supply was a record \$585 billion in 1Q25, up 2 percent year-over-year (Y/Y). Taxable bond flows remained solid at \$102 billion in 1Q25, but down 24 percent Y/Y. Modest new issue concessions and healthy order books indicated solid demand. Foreign inflows into U.S. corporates were strong in 2024 but have slowed recently. The outlook is uncertain.



FUNDAMENTALS

FIGURE 3: LEVERAGE STEADY, SPREAD COMPENSATION LOW



Source: Barclays Research, U.S. Investment Grade Credit Metrics, 4Q 2024 Update, March 19, 2025 and Bloomberg U.S. Corporate Bond Index, March 31, 2025.

Credit fundamentals remain stable with solid earnings and margins.

Agency corporate credit rating upgrades of U.S. IG bonds exceeded downgrades by about 3:1 in 1Q25.

Should reciprocal tariffs stick, credit implications would be negative for a broad subset of sectors.

Earnings are projected to grow by approximately 9 percent in 2025, but if tariffs stick, risks to the downside are likely to emerge.

On the regulatory front, a trend to deregulation may reduce compliance and legal costs, but staffing cuts may slow progress.

Leverage is steady but elevated and risk compensation or spread-per-turn of leverage is below the long-term median.



CORPORATE TRENDS DASHBOARD

OUR VIEW: Favorable rating trends and supply/demand are offset by rising geopolitical risk and full valuations.

TRENDS	Weakness			Strength		
Rating Trends				X		U.S. IG Agency corporate credit rating upgrades exceeded downgrades by about 3:1 in 1Q25.
Regulatory				X		Deregulation may reduce compliance and legal costs, but staffing cuts may slow progress.
Supply/Demand				X		IG supply of \$585B in 1Q25 was met by solid institutional flows, but the outlook is less certain.
Central Bank Policy			X			Per median projections in the Fed's March SEP, officials expect two interest rate cuts in 2025.
Economy			X			Solid consumer spending and job gains occurred in 1Q25, but momentum is likely to slow with tariffs.
Financial Leverage			X			Financial leverage has been elevated but steady; risk compensation or spread-per-turn of leverage was quite low during 1Q25.
Operating Trends			X			Earnings are projected to grow by ~9% in 2025, but if tariffs stick, we see risks to the downside.
Corporate Event Risk	X					Mergers were 20% higher in 1Q25 Y/Y but we believe they may be likely to slow due to economic uncertainty.
Valuations		X				At +94bps, spreads ended the quarter in the 19th percentile of the 20-Year range; rich valuations leave corporates vulnerable to a tariff shock.
Geopolitical Risk	X					Geopolitical risks are high, with the risk of a global trade war and conflicts in Israel and Ukraine.

Sources: Breckinridge Capital Advisors, Federal Reserve, Morgan Stanley, Barclays, Bloomberg, ICI, FactSet, Rating Agencies, as of March 31, 2025.



STATISTICAL SUMMARY

	As of 3/31/2025		OAS Change (bps)		
	Yield to Worst (%)	OAS (bps)	Month to Date	Quarter to Date	Year to Date
Bloomberg U.S. Corporate Index	5.15	94	7	14	14
Corporate Credit Curves					
Corporate 1-3 Year	4.55	58	6	6	6
Corporate 1-5 Year	4.65	69	7	8	8
Corporate 5-10 Year	5.16	103	9	18	18
Corporate 10+ Year	5.72	116	7	18	18
Corporate Quality Spreads					
AAA Corporate	4.78	41	3	9	9
AA Corporate	4.79	54	3	9	9
A Corporate	5.00	80	5	11	11
BBB Corporate	5.35	115	10	18	18
Corporate Sector Spreads					
Banking	4.98	90	7	10	10
Basic Industry	5.31	104	8	12	12
Capital Goods	5.02	83	5	11	11
Communications	5.41	112	8	15	15
Consumer Cyclical	5.08	93	11	21	21
Consumer Non-Cyclical	5.11	84	6	10	10
Energy	5.37	109	8	17	17
Insurance	5.33	104	8	16	16
REITS	5.08	96	7	14	14
Technology	4.98	77	5	12	12
Transportation	5.27	93	9	18	18
Utility	5.33	103	6	21	21
Supply/Demand (\$Billions)					
	2024	2023	2022	2021	2020
Net Corporate Supply	729	508	389	804	1038
Net Purchases (Foreigners)	356	202	161	58	181
Net Purchases (Funds)	461	179	127	481	425
Net Purchases (Households)	-357	4	-301	-108	31
Net Purchases (Insurance)	213	140	208	220	199
Net Purchases (Other)	56	-17	194	153	202

Sources: Bloomberg Barclays, Fed Flow of Funds, as of March 31, 2025.



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#BCAI-04092025-FDY8862L (4/15/25)

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